

Message Text

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ACTION EUR-08

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C O N F I D E N T I A L OTTAWA 00884

LIMDIS

USOECD

E.O. 11652: GDS
TAGS: EFIN, CA
SUBJECT: CANADA TO BORROW ABROAD AND DRAWDOWN CREDIT TO
FINANCE BALANCE OF PAYMENTS

REF: OTTAWA 62

1. SUMMARY. CANADA WILL DRAW ON ITS U.S. DOLS 1.5
BILLION REVOLVING STANDBY CREDIT AND MAKE ADDITIONAL
BORROWING IN FOREIGN CAPITAL MARKETS FOR BALANCE OF
PAYMENTS SUPPORT. RECENT INTERVENTION BY THE BANK OF
CANADA HAS LEFT CANADIAN INTERNATIONAL RESERVES AT LOW
LEVELS. GOC PLANS TO PAY OFF CREDIT DRAWDOWN FROM
PROCEEDS OF BOND ISSUE. END SUMMARY.

2. FINANCE MINISTER CHRETIEN ANNOUNCED EVENING OF
FEBRUARY 21 THAT GOC PLANS TO BORROW FUNDS OUTSIDE
CANADA TO ASSIST IN FINANCING THE CURRENT ACCOUNT
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DEFICIT AND SUPPLEMENT THE INFLOW OF CAPITAL TO CANADA
THAT OCCURS THROUGH OTHER CHANNELS. DETAILS WILL BE
ANNOUNCED LATER, HE SAID.

3. AS AN INTERIM STEP CHRETIEN SAID THE GOC WILL SHORTLY
MAKE WITHDRAWAL UNDER THE U.S.DOLS 1.5 BILLION REVOLVING
STANDBY CREDIT FACILITY ARRANGED LAST OCTOBER WITH

CANADIAN CHARTERED BANKS(REFTEL).

4. GOC DEPARTMENT OF FINANCE TOLD EMBOFF PLAN IS PROBABLY TO FLOAT BOND ISSUE IN FOREIGN MARKETS,PROCESS WHICH COULD TAKE SOME WEEKS OR LONGER. PROCEEDS OF BOND ISSUE WOULD BE USED TO PAY OFF REVOLVING CREDIT OUTSTANDING, MAKING FULL U.S. DOLS 1.5 BILLION CREDIT AGAIN AVAILABLE. HOWEVER, FINANCE DEPARTMENT STATES TYPE OF BORROWING, AMOUNT, LOCATION, DENOMINATION OF CURRENCY, AND EVEN AMOUNT OF STANDBY CREDIT TO BE DRAWN DOWN HAVE NOT YET BEEN FINALLY DECIDED. AMOUNT OF DRAWDOWN MAY NOT BE MADE PUBLIC UNTIL PUBLICATION OF MONTHLY RESERVE POSITION FIGURES ON MARCH FIRST.

5. EMBASSY BELIEVES AMOUNT OF FOREIGN BOND ISSUE IS LIKELY TO BE SIZEABLE IN ORDER TO DEMONSTRATE TO MARKET MAGNITUDE OF BACKING FOR DOLLAR AVAILABLE TO CANADA. SIZE WILL PROBABLY BE WELL IN EXCESS OF LAST BORROWING ABROAD BY CANADA OF U.S. DOLS 100 MILLION IN JUNE 1968, AND 250 MILLION DM LOAN IN MAY 1968, AND COULD BE IN EXCESS OF SIZE OF CREDIT DRAWDOWN.

6. CANADIAN DOLLAR HAS BEEN UNDER STRONG DOWNWARD PRESSURE IN PAST WEEKS (SEE SEPTTEL). INTERVENTIONS BY BANK OF CANADA TO MAINTAIN ORDERLY MARKET CONDITIONS HAVE REPORTEDLY BEEN HEAVY. RESERVES DROPPED U.S. DOLS 202
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MILLION IN JANUARY TO U.S. DOLS 4.4 BILLION, OF WHICH U.S. DOLLAR COMPONENT WAS 2.1 BILLION. RESERVES LOSSES SINCE BEGINNING OF FEBRUARY ARE BELIEVED TO HAVE BEEN FAR GREATER THAN THOSE IN JANUARY, PROBABLY PUTTING U.S. DOLLAR COMPONENT OF RESERVES -- WHICH ARE THOSE USED FOR INTERVENTION -- NOW AT A LEVEL BELOW THE RECENT LOW OF U.S. DOLS 1.8 BILLION AT THE END OF LAST NOVEMBER, THE LOWEST AMOUNT SINCE 1970.

7. AN IMPORTANT CAUSE FOR THE WEAKNESS OF THE CANADIAN DOLLAR HAS BEEN THE RECENT DROUGHT IN CANADIAN FOREIGN BORROWING AND LONG-TERM CAPITAL INFLOWS. ON A SETTLEMENT DATE BASIS (NOT CONVERSION) AND INCLUDING BANK CONSORTIUM BORROWINGS -- SUCH AS THE RECENT U.S.DOLS 750 MILLION HYDRO QUEBEC BANK LOAN WHICH IS NOMINALLY ROLLED OVER EVERY SIX MONTHS BUT WHICH WILL ACTUALLY RUN FOR AS MUCH AS TEN YEARS -- THE DEPARTMENT OF FINANCE ESTIMATES THERE WERE NET LONG-TERM CAPITAL INFLOWS OF U.S. DOLS 700 MILLION IN JANUARY BUT ZERO SO FAR IN FEBRUARY. IT ESTIMATES TOTAL LONG-TERM CANADIAN BORROWING ABROAD IN 1978 WILL BE JUST UNDER U.S. DOLS 5 BILLION, DOWN FROM THE U.S. DOLS 5.1 TO 5.3 BILLION (DEPENDING ON DEFINITIONS)

IN CALENDAR 1977 AND U.S. DOLS 8.2 BILLION IN 1976.

ENDERS

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